

STUDENT
LOAN REDLINING

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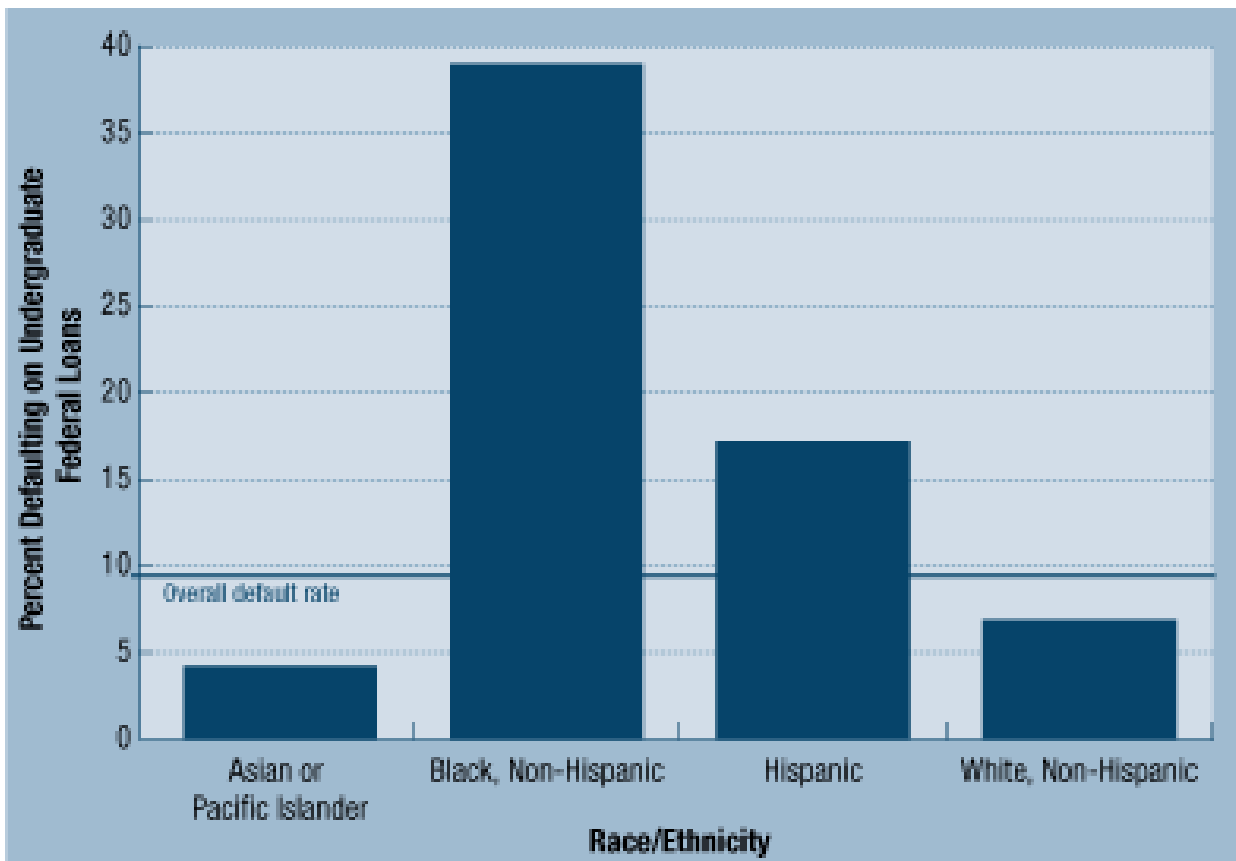
ARE WE SETTING STUDENTS UP TO FAIL BEFORE THEY EVEN BEGIN?

Student Loan Redlining: What Is It?

- Use of certain criteria to price private student loans which result in minorities paying more, sometimes twice as much, for loans simply because of the school they choose to attend. This is discrimination and causes a disparate impact on minority students.
- Of particular concern is the use of a school's "default history" to price student loans. Default history relates to whether other students who have attended that school had problems paying back their own student loans (see examples on pages 2 and 3 of how this can impact minority students).
- Another problem area is the use of various types of "school performance" which penalizes students for the progress, or lack of progress, of other students at that school.
- The use of credit scores and cosigner credit scores can also result in discrimination and have a disparate impact on minorities because minority students are less likely to have high credit scores or to have family members with good credit that can cosign for their private student loans and get them a good rate.

Ten-Year Study Showing Default Rates By Students' Race

Chart 3. Ten-Year Default Rate Among 1992–93 Bachelor's Degree Recipients, by Race/Ethnicity



Source: U.S. Department of Education, National Center for Education Statistics, 1993/03 Baccalaureate and Beyond Longitudinal Study (B&B:93/03), Data Analysis System, calculations by author.

Examples of 2006 Default History*

In 2006, the National Average Default Rate was 5.1%

This chart shows a comparison between the default rates at traditional schools and Historically Black Colleges or Universities in the same state. Clearly, if a lender uses a school's default history to price private student loans, students at the Historically Black Colleges and Universities will pay more for the same loans.

Schools' Location	Traditional School	Historically Black College/University**
North Carolina	<i>North Carolina State</i> 0.9%	<i>Livingstone College</i> 15.3%
	<i>University of North Carolina</i> 1.5%	<i>Shaw University</i> 11.2%
	<i>Appalachian State University</i> 0.7%	<i>North Carolina A&T University</i> 8.9%
	<i>East Carolina University</i> 1.2%	<i>Bennett College</i> 8.8%
Mississippi	<i>Mississippi State University</i> 3.5%	<i>Tougaloo College</i> 10.3%
	<i>University of Mississippi</i> 3%	<i>Alcorn State</i> 10.3%
	<i>William Carey University</i> 2.9%	<i>Jackson State University</i> 8%
Georgia	<i>Emory University</i> 0.5%	<i>Morehouse College</i> 8.9%
Texas	<i>University of Houston</i> 4.4%	<i>Texas Southern</i> 14.6%
	<i>University of Texas</i> 1.9%	<i>Prairie View A&M</i> 11.4%
Florida	<i>University of Florida</i> 1.9%	<i>Bethune-Cookman College</i> 12.2%
	<i>University of North Florida</i> 3.3%	<i>Edward Waters College</i> 19.8%
Alabama	<i>University of Alabama</i> 4.1%	<i>Alabama State University</i> 11%
	<i>University of South Alabama</i> 3%	<i>Alabama A&M University</i> 7.8%

*Statistics gathered from www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

**A school's default rate is not indicative of the school's quality of education. Minority students who are forced to borrow more financial aid to pay for college, who have a harder time finding jobs with equal pay, and who may be receiving more costly loans are more vulnerable to defaulting on student loans.

Similar Impact on Hispanic-Serving Institutions and For-Profit Schools

Hispanic-Serving Institutions have similar figures; however, the problem is not unique to Historically Black Colleges and Universities or Hispanic-Serving Institutions but rather schools with high minority populations because that is when you see the disparity in default rates.

For example, for-profit trade schools traditionally have much higher minority populations than those of traditional colleges, hence higher default rates and more expensive private student loans. One study, conducted by National Center for Education Statistics, demonstrated that the number of African-American students receiving degrees from for-profit institutions is 41% higher than those receiving degrees from traditional institutions. The number of Hispanic students receiving degrees from for-profit institutions is 34% higher than Hispanic students receiving degrees from traditional institutions.

STUDENT LOAN REDLINING:

WHAT CAN WE DO?

1. Conduct studies to determine what type of school-specific information results in discriminatory rates and fees in private student lending.
2. Enact legislation that regulates the criteria used to price private student loans to make sure that no factors used have the impact of discriminating against minority students.
3. Follow the current study being conducted by the Government Accounting Office, as mandated in 2008 legislation, which ordered a study to determine whether the use of certain school-specific factors in underwriting student loans more negatively impacts certain groups of students or students at certain schools.
4. Encourage student loan lenders to make public the type of information they use to underwrite private student loans and educate students on ways to learn how their loans are being priced.
5. Educate lenders on ways to ensure that the pricing of their student loans do not discriminate against minority students or students at certain schools.